

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-06 ISO-00 CIAE-00 PM-03 H-01 INR-05 L-02

NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-07 FRB-01 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 IO-10 NEA-06 CEA-01

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INFO AMEMBASSY SAIGON PRIORITY

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 3/31/75

TAGS: EAID, EFIN, VS

SUBJECT: PROPOSED ADB LOAN FOR INDUSTRIAL DEVELOPMENT BANK
OF VIETNAM

SUMMARY: ADB MANAGEMENT PROPOSES \$7.0 MILLION EQUIVALENT
LOAN FROM SPECIAL FUNDS RESOURCES TO GOVT OF VIETNAM TO
AUGMENT FOREX RESOURCES OF INDUSTRIAL DEVELOPMENT BANK
OF VIETNAM (IDBV) TO MEET MEDIUM AND LONG-TERM CREDIT
REQUIREMENT OF INDUSTRIES IN PRIVATE SECTOR. USADB
RECOMMENDS FAVORABLE NAC ACTION.

1. ADB DOC. R125-74 WITH ATTACHMENTS DESCRIBING
PROPOSED LOAN POUCHED ADDRESSEES 3 DEC. BOARD CONSIDERA-
TION SCHEDULED 23 DEC.

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2. ADB MANAGEMENT PROPOSING \$7.0 MILLION LOAN FROM

SPECIAL FUNDS RESOURCES TO GOVT OF VIETNAM FOR RELENDING TO IDBV. PROCEEDS WILL AUGMENT IDBV'S FOREX RESOURCES TO ENABLE IT TO PROVIDE MEDIUM AND LONG-TERM LOANS TO INDUSTRIAL ENTERPRISES IN PRIVATE SECTOR. PROPOSED TERMS ARE 40 YEAR AMORTIZATION INCLUDING 10 YEAR GRACE PERIOD, 1 PERCENT SERVICE CHARGE. REPUBLIC OF VIETNAM TO BE BORROWER AND IDBV THE EXECUTING AGENCY. (SEE PARA 8 FOR RELENDING TERMS.)

3. VIETNAM'S INDUSTRIAL SECTOR CONTRIBUTES ONLY ABOUT 8 TO 9 PERCENT OF NET DOMESTIC PRODUCT AND PROVIDES EMPLOYMENT TO JUST ABOUT 5 PERCENT OF LABOR FORCE. WHILE A PREDOMINANT SUB-SECTOR WAS DEVELOPED EARLIER TO SUPPLY CONSUMPTION REQUIREMENTS OF LARGE ARMY AND TO CATER TO SERVICE NEEDS OF ALLIED FORCES IN COUNTRY, DURING RECENT YEARS INDUSTRIAL PRODUCTION CAPACITY IN CEMENT, SUGAR, PAPER, PHARMACEUTICALS, STEELS, ETC. HAS EMERGED TO SERVE NEEDS OF DEVELOPING ECONOMY. IN LAST TWO-THREE YEARS GOVT HAS EMPHASIZED DEVELOPMENTAL FEATURES OF INDUSTRIAL PROGRAM WHICH INCLUDES PROVISION OF INCENTIVES TO MORE INDUSTRIES THAT USE LOCAL RAW MATERIALS, GENERATE EMPLOYMENT THROUGH LABOR INTENSIVE METHODS AND PROMOTE EXPORTS.

4. IN JULY 1968 BANK APPROVED \$89,000 TECHNICAL ASSISTANCE (TA) TO VIETNAM. TA PROVIDED FOR FOUR EXPERTS TO INVESTIGATE FUNCTIONS AND PROCEDURES USED BY THREE EXISTING INDUSTRIAL FINANCING INSTITUTIONS FOR HANDLING INVESTMENT PROJECTS. PROGRAM ALSO PROVIDED FOR ONE SENIOR ADVISOR TO EACH INSTITUTION TO ASSIST WITH OPERATIONS AND PROJECT PROCESSING. UNDER LATTER PORTION OF BANK'S TA TO INDUSTRIAL DEVELOPMENT CENTER (IDC), PREDECESSOR TO IDBV, RECOMMENDATIONS WERE MADE TO TRANSFER IDC'S NON-BANK FUNCTIONS TO OTHER APPROPRIATE INSTITUTIONS AND REORGANIZE IDC INTO DEVELOPMENT BANK. IN MAY 1971 GOVT DECREE WAS ISSUED CONVERTING IDC INTO IDBV. NEW CHARTER RELIEVED IDBV ON NON-BANKING ACTIVITIES. SUBSEQUENTLY, UNDER TA PROGRAM FROM USAID, CONSULTING SERVICES WERE PROVIDED IN 1972 AND 1973 TO ASSIST IN REORGANIZATION OF IDBV. FURTHER TA IS NEEDED TO CONSOLIDATE LIMITED OFFICIAL USE

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WORK DONE TO DATE AND IMPROVE OPERATIONAL PROCEDURES IN MARKETING, ENGINEERING AND ECONOMIC FIELDS. BANK MISSION UNDERSTANDS USAID IS PREPARED TO PROVIDE SUCH ASSISTANCE (PARA 47 OF LOAN DOCUMENT).

5. IDBV IS WHOLLY-OWNED GOVT INSTITUTION UNDER JURISDICTION OF MINISTRY OF TRADE AND INDUSTRY. ITS CHARTER HAS NO PROVISION FOR AUTHORIZED, CALLABLE OR PAID-IN

SHARE CAPITAL, BUT CHARTER WILL BE REVISED BY JUNE 30, 1975 TO RESTRUCTURE IDBV'S CAPITAL ON CONVENTIONAL LINES (SIDE LETTER NO. 2, PARA. 3). ABOUT 90 PERCENT OF IDBV'S LOANS HAVE BEEN TO INDUSTRIES IN GREATER SAIGON AREA, MAINLY RESULT OF COUNTRY'S SECURITY SITUATION. AS OF END 1973, IDBV'S LOANS ACCOUNTED FOR ABOUT 60 PERCENT OF TOTAL VALUE OF TERM LOANS TO INDUSTRIAL SECTOR.

6. TO DATE, IDBV'S RESOURCES, BOTH CAPITAL AND BORROWINGS, HAVE BEEN GENERATED ALMOST ENTIRELY FROM USAID COUNTER-PART FUNDS. LOAN PORTFOLIO SHOWS HEAVY CONCENTRATIONS IN TEXTILE, METALS, AND FOOD AND BEVERAGE INDUSTRIES. ARREARS SITUATION IN RECENT YEARS HAS BEEN UNSATISFACTORY PARTICULARLY IN TEXTILE SECTOR NECESSITATING LARGE NUMBER OF RESCHEDULINGS. WHILE RESERVE AGAINST BAD DEBTS REQUIRES SUBSTANTIAL BUILD UP, IDBV'S PROFITABILITY HAS BEEN DECLINING SINCE 1972 DUE TO HIGHER BORROWING CHARGES AND SUBSTANTIAL INCREASE IN ADMINISTRATIVE AND GENERAL EXPENSES. PROFITABILITY SHOULD IMPROVE AS RESULT OF RECENT CAPITAL INCREASE AND REDUCED BORROWING COSTS.

7. IDBV'S FOREIGN CURRENCY REQUIREMENTS ARE ESTIMATED TO AMOUNT TO \$31.7 MILLION IN NEXT TWO YEARS. COMMITMENTS ALREADY RECEIVED CONSIST OF DM10.0 MILLION (ABOUT \$3.9 MILLION EQUIVALENT) FROM KFW IN 1975 AND \$8.0 MILLION FROM USAID FOR EACH OF THREE YEARS 1975 THROUGH 1977 (DEPENDING ON DECISION OF U.S. CONGRESS). MISSION BELIEVES ADB LOAN OF \$7.0 MILLION CAN BE EASILY COMMITTED WITHIN ONE YEARS.

8. GOVT PROPOSES TO RELEND LOAN PROCEEDS TO IDBV AT 8-1/4 PERCENT INTEREST BUT WITH SAME REPAYMENT PERIOD (40 YEARS) AS THAT EXTENDED ON BANK LOAN TO GOVT. LIMITED OFFICIAL USE

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THIS WILL PROVIDE IDBV WITH SIZABLE LOCAL CURRENCY RESOURCES FOR RELENDING. REPAYMENTS BY SUB-BORROWERS WILL BE PLACED IN REVOLVING FUND FOR FURTHER LENDING BY IDBV. IDBV WILL REPORT TO BANK ON ANNUAL BASIS ON UTILIZATION OF FUND. PROCEEDS OF BANK LOAN WILL BE RELENT BY IDBV AT 15 PERCENT PER ANNUM INTEREST, WHICH IS HIGHLY SUBSIDIZED RATE CONSIDERING THAT FOREIGN EXCHANGE RISK WILL BE BORNE BY GOVT. ALL FUNDS ACCRUING TO GOVT FROM PAYMENT OF INTEREST BY IDBV, AFTER PAYMENT OF SERVICE CHARGE TO BANK, WILL BE UTILIZED BY GOVT FOR DEVELOPMENT PURPOSES IN CONSULTATION WITH BANK.

9. SUBLOANS EXCEEDING \$100,000 WILL BE SUBJECT TO BANK'S PRIOR APPROVAL. FIRST TEN CASES WILL BE SUBMITTED

TO BANK IRRESPECTIVE OF AMOUNTS. BANK'S GUIDELINES ON PROCUREMENT WILL BE APPLIED, WITH INTERNATIONAL COMPETITIVE BIDDING ON SUBLOANS ABOVE \$600,000, INTERNATIONAL SHOPPING BETWEEN \$300,000 AND \$600,000, AND REASONABLE COMPETITION BELOW \$300,000.

10. PROPOSED PROJECT IS EXPECTED TO CONTRIBUTE TO REDUCED UNEMPLOYMENT AND INCREASED FOREIGN EXCHANGE EARNINGS. WHILE PROJECTED BALANCE SHEET AND INCOME STATEMENTS FORECAST MUCH IMPROVEMENT IN IDBV OPERATIONS, PRESENT SHORTCOMINGS WILL BE DIFFICULT TO OVERCOME. USADB QUESTIONS ADVISABILITY OF ANY INCREASE IN AVERAGE INTEREST SPREAD (PARA 108 OF LOAN DOCUMENT) AND FINDS IT DIFFICULT TO UNDERSTAND WHY IDBV CANNOT OPERATE PROFITABLY WITH PRESENT HIGH AVERAGE INTEREST SPREAD OF 4.9 PERCENT. BANK MANAGEMENT BELIEVES FOUNDATIONS HAVE BEEN LAID FOR IDBV TO BUILD ITSELF INTO SOUND DEVELOPMENT FINANCING INSTITUTION AND BANK WILL CLOSELY SUPERVISE IDBV'S PROCESSING OF PROPOSED LOAN. USADB WOULD APPRECIATE CONFIRMATION FROM SAIGON, FOR INFORMATION OF NAC AGENCIES, THAT USAID WILL PROVIDE ASSISTANCE TO IMPROVE IDBV'S OPERATION PROCEDURES. USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

11. REQUEST SAIGON'S COMMENTS FOR NAC AGENCIES.
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INFO USADB MANILA, PURSUANT TO STATE 119795 DTD 3 JULY 1972.
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